

PUBLIC DISCLOSURE

August 30, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Connecticut Bank of Commerce
19183**

**612 Bedford Street
Stamford, CT 06901**

Federal Deposit Insurance Corporation

**15 Braintree Hill Office Park
Braintree, MA 02184**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Connecticut Bank of Commerce** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 30, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Connecticut Bank of Commerce's (CBC's) lending efforts during the last several years have been hampered by a large portfolio of non-performing loans, poor earnings, regulatory enforcement actions, and a reduction in personnel. In an effort to return the bank to profitability, management has focused its lending efforts on two profitable market niches: lease finance receivables and accounts receivable lending. Virtually all lease finance receivables originated by the bank during 1997, 1998 and through August 1999 (the evaluation period for this CRA examination) were made to one company located within one of the bank's three assessment areas. However, because that company in turn used these funds to make leases to businesses located outside of the bank's assessment areas and in some cases outside of Connecticut, the benefit realized by the communities in which the bank operates is minimal. Nonetheless, the volume of lease finance receivables and accounts receivable loans originated by CBC has enabled it to return to profitability after years of losses. As a result, the bank has been able to hire additional lending staff after years of cutbacks, and management expects to see a greater percentage of loans originated within its assessment areas in the future. The satisfactory CRA rating assigned is largely based on this performance context given that the actual penetration and dispersion of lending within the bank's assessment areas during the past two and one-half years warrants significant improvement.

While less than a majority of small business loans were made within the assessment areas during the evaluation period (22 percent in total), CBC hired two new commercial lenders in 1999 and management in turn expects these numbers to grow.

CBC's consumer and home mortgage lending business showed a good penetration of low- and moderate-income borrowers, however, these two portfolios account for only 11.5 and 6.3 percent of the total loan originations by dollar amount, respectively. Accordingly, less emphasis is placed on these particular credit products when assigning ratings.

There does not appear to be an adequate distribution of loans made throughout the bank's assessment areas. However, this is largely due to the fact that all lease finance receivables were made within one census tract and a limited number of small business and home mortgage loans were actually originated during the evaluation period. While by number a significant amount of consumer loans were made, again, the corresponding percentage of the bank's overall loan portfolio by dollar is less meaningful.

DESCRIPTION OF INSTITUTION

Connecticut Bank of Commerce (CBC) is a state-chartered commercial bank established in 1964 as Amity Bank and is headquartered in Stamford, Connecticut. The bank was renamed in 1993 following a change in ownership. At the previous examination, the headquarters were located in Woodbridge, but were relocated to Stamford in 1996. CBC Bancorp, Inc., the bank holding company that owned CBC, ceased to exist as of December 31, 1997. The bank has no subsidiaries and operates branches in Woodbridge and Branford, Connecticut. Since the previous CRA examination in October 1995, the bank closed a branch in Norwalk, Connecticut. No new branches have been opened since that time. At June 30, 1999, the bank had total assets of \$89,334,000, total loans of \$70,150,000, and total deposits of \$81,614,000.

The bank is primarily a commercial lender with 40 percent of the loan portfolio secured by commercial and industrial loans, 19 percent secured by commercial real estate, and 13 percent secured by lease finance receivables. Loans secured by residential properties are as follows: 15 percent secured by 1st liens on 1-4 family properties, 4 percent revolving open-end secured by 1-4 family properties, and 1 percent secured by junior liens on 1-4 family properties.

The bank has been struggling financially for several years, which has adversely impacted its ability to meet the credit needs of the communities in which operates. These factors have also precluded the bank from offering a broad spectrum of credit products. In an attempt to carve out a profitable niche, the bank established a business relationship with a leasing company located in one of its assessment areas. As a result, the vast majority of lease finance receivables originated by CBC during the evaluation period were made to this company.

DESCRIPTION OF ASSESSMENT AREA

The bank has three assessment areas: (1) Stamford; (2) Norwalk, Westport, and Wilton; and (3) Branford, East Haven, Guilford, New Haven North Haven, and West Haven. Assessment areas (1) and (2) are part of the Stamford-Norwalk, CT Primary Metropolitan Statistical Area (PMSA), and assessment area (3) is part of the New Haven-Meriden, CT PMSA. All of the assessment areas are located in the New York Consolidated Metropolitan Statistical Area (CMSA), and the conclusions reached in this Performance Evaluation are based on the bank's performance therein.

In total, there are 126 census tracts in the bank's 3 assessment areas of which 17 are considered low-income, 29 moderate-, 54 middle- and 26 upper-income. On a combined basis, the three assessment areas have a total population of 544,946 based on 1990 U.S. Census Bureau data. There are 207,782 households, of which 140,298 are considered family households. Approximately, 11 percent of total households are low-income, 27 moderate-income, 44 middle-income, and 18 percent upper-income.

The demographics of the three assessment areas vary widely. Assessment areas (1) and (2) are located in Fairfield County, which has some of the highest median family incomes in the nation. Median family income in the Stamford-Norwalk PMSA, based on 1999 U. S. Department of Housing and Urban Development estimates, is \$89,300, whereas the New Haven-Meriden PMSA median family income is \$57,200. Housing prices also differ markedly, with a median housing unit in the Stamford-Norwalk PMSA valued at \$359,044, whereas the median housing unit in New Haven-Meriden PMSA is worth \$170,900.

Information from the U.S. Census Bureau for 1994 shows a large number of business establishments in both Fairfield and New Haven Counties, the two counties in which the bank's assessment areas fall. In Fairfield County, which includes assessment areas (1) and (2), there are 26,781 businesses employing 417,301 people. In New Haven County, there are 20,618 establishments employing 313,933 workers. In both counties, 95 percent of the establishments have fewer than 50 employees. In other words, the smallest businesses are the most predominant in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Evaluation

The bank's lending performance is based upon an evaluation period encompassing 1997, 1998, and through August 1999. Accounts receivable loans are included in the small business lending category for purposes of this evaluation. Home mortgages include purchase money mortgages as well as home equity loans. Consumer loans include automobile, personal lines of credit, and unsecured loans.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio for the 14 quarters since the small bank CRA examination procedures became effective has averaged 77 percent. This ratio has ranged from a low of 69 percent on March 31, 1996, to a high of 84 percent at June 30, 1999. The percentage has generally trended upward, and while it appears to be at an adequate level, much of the lending indicated by this ratio benefits areas outside of the bank's assessment areas and even beyond the state of Connecticut. Therefore, little emphasis was placed on this particular performance factor when assigning an overall rating.

Lending Inside Assessment Area

One of the factors used to evaluate the bank's performance is the percentage of loans originated inside the assessment areas versus the percentage extended outside. As evidenced in Table 1 below, in the aggregate, the bank appears to be making a large percentage of loans within its assessment areas (70 percent by number). However, this ratio is misleading as the lease finance receivables, while originated to a local company, do not actually benefit businesses or individuals inside the bank's assessment areas. The financial benefits of these leases are to companies located throughout the United States with several benefiting foreign and off-shore companies. Accordingly, it is important to analyze CBC's small business, home mortgage and consumer lending performance separately from its lease finance receivable activity.

<i>Table 1 – Distribution of Loans Inside and Outside of the Assessment Areas</i>										
<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollar Amount of Loans</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
<i>Lease Financing Receivables</i>										
<i>1997</i>	251	98	6	2	257	18,202	93	1,439	7	19,641
<i>1998</i>	79	82	17	18	96	6,600	69	2,899	31	9,499
<i>1999</i>	62	86	10	14	72	5,651	63	3,340	37	8,991
<i>Subtotal</i>	392	92	33	8	425	30,453	80	7,678	20	38,131
<i>Small Business</i>										
<i>1997</i>	8	20	33	80	41	1,404	14	8,653	86	10,057
<i>1998</i>	5	17	25	83	30	611	9	5,967	91	6,578
<i>1999</i>	9	30	21	70	30	857	11	7,164	89	8,021
<i>Subtotal</i>	22	22	79	78	101	2,872	12	21,784	88	24,656
<i>Home Mortgage</i>										
<i>1997</i>	18	62	11	38	29	1,419	66	746	34	2,165
<i>1998</i>	17	31	37	69	54	1,197	28	3,149	72	4,346
<i>1999</i>	8	23	27	77	35	439	19	1,924	81	2,363
<i>Subtotal</i>	43	37	75	63	118	3,055	34	5,819	66	8,874
<i>Consumer</i>										
<i>1997</i>	87	71	35	29	122	526	23	1,740	77	2,266
<i>1998</i>	107	69	48	31	155	783	60	530	40	1,313
<i>1999</i>	95	66	49	34	144	681	52	626	48	1,307
<i>Subtotal</i>	289	69	132	31	421	1,990	41	2,896	59	4,886
<i>Total</i>	746	70	333	30	1,065	38,370	50	38,177	50	76,547

Small Business Lending

The bank's level of small business lending within the community, both by number of loans and dollar amount, is considered inadequate. A majority of the loans (primarily accounts receivable loans), 78 percent by number and 88 percent by dollar, were originated outside of the bank's assessment areas. While the poor lending penetration within the assessment area would not typically be reflective of satisfactory performance, these loans enabled the bank to earn a profit and remain viable. Nonetheless, the loans benefited local businesses and borrowers only to a limited degree. Given that small business loans accounted for 32 percent of total originations by dollar amount (second only to the lease finance receivable lending) and 9.5 percent by number, this segment of the bank's lending activity was weighed significantly when assigning ratings.

Home Mortgage Loans

Similarly, less than a majority of the bank's home mortgage loans by both number (37 percent) and dollar (34 percent) were made inside its assessment areas during the evaluation period. Moreover, the trend in this regard is less than favorable with the levels decreasing markedly from 1997 to 1998 and declining further from 1998 through August 1999. However, given the numbers included in the above table, it is evident that the bank has not made extensive efforts to make home mortgage loans; in fact, CBC made no purchase money mortgages in 1997. The bank uses a non-local mortgage broker for many of its home equity loans and as a result, most of its home equity loans are originated outside of its assessment areas as well. The impact of the bank's home mortgage lending activity on its overall rating was mitigated by the fact that these loans represented 11.6 percent of total originations by dollar during the evaluation period.

Consumer Loans

The percentage of consumer loans originated inside the assessment areas is good at 69 percent, although the trend has been decreasing slightly over the past few years. The percentage of consumer loan originations measured by dollar shows that a majority has been lent outside the assessment areas for the time period reviewed, but there is a trend towards a higher percentage being lent inside the assessment areas. In 1998 and through August 1999, over half of the consumer loan dollars have been lent inside CBC's assessment areas. However, consumer loans represent only 6.4 percent of total originations by dollar during the evaluation period; therefore, this category of lending had little impact on the overall rating assigned.

Lease Finance Receivables

Nearly all lease finance receivables were originated inside the assessment areas, which resulted from CBC's business relationship with a leasing company located in one census tract. However, again, the financial benefits of the leases were actually to companies located outside of the assessment area, and in some cases outside of the country. Although these loans represented CBC's single largest product by both number (39.9 percent) and dollar (49.8 percent), the poor penetration inside and throughout the bank's assessment areas is mitigated by the underlying necessity.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans shows an inadequate distribution among the census tracts located inside the bank's assessment areas. The lease finance and small business loan categories are the main reasons for the lack of dispersion as these are the most substantial portions of the bank's loan portfolio. As previously explained, the vast majority of the lease finance receivables were made to one borrower, a business headquartered in a middle-income census tract in Wilton, Connecticut. Analyses of the distribution of loan originations by product category showed that only the consumer loans were reasonably distributed throughout the assessment areas' low-, moderate-, middle-, and upper-income census tracts. Further details relative to each of the four predominant loan categories are provided below.

Small business lending

During the review period, CBC originated 22 loans totaling \$2,872,000 inside its assessment areas. Only 12 of the areas' 126 census tracts were penetrated, and of the 12, only 4 had more than 1 loan. Of the 22 loans made inside the assessment areas, 17 were made in either a moderate- or upper-income census tract. While the regulation does not require the bank to lend in every census tract within the assessment area, conspicuous gaps in lending within the assessment area should be adequately explained. Performance context information (i.e., management's focus on lease finance and accounts receivable loans) explains much of the lending imbalance within the assessment areas. Additionally, the size of the assessment areas may be unusually large for the bank, particularly in light of the fact that they encompass an area that used to be serviced by a branch that has since been closed.

To gauge the demand for small business loans in the assessment areas, data reported by large banks (generally banks with total assets greater than \$250 million) was analyzed for 1997 and 1998. As this data does not take into account loans originated but not reported by small banks, the numbers are not reflective of all loans made by financial institutions in the assessment areas. This data showed that loans were, in fact, made in each of the census tracts in CBC's assessment areas over the two-year period, which demonstrates that lending opportunities existed.

The fact that only 10 percent of all census tracts inside the assessment areas were penetrated indicates a lack of geographic dispersion and would not normally meet the standards for satisfactory performance. However, given CBC's financial constraints and management's focus on returning the bank to profitability, this performance is considered satisfactory.

Home Mortgage Lending

The geographic distribution of the bank's home mortgage loans was more favorable, although still only 24 percent of all census tracts were penetrated. CBC did a good job of lending within the moderate-income census tracts, which comprise 23 percent of all census tracts in the assessment areas, by extending 28 percent of all residential mortgage loans in these tracts. No loans were made in any of the areas' low-income census tracts although these geographies comprise 13 percent of total census tracts. Approximately 35 percent of all mortgage loans went

to middle- and 35 percent to upper-income census tracts, which account for 43 and 21 percent of all census tracts, respectively. Again, because the residential mortgage loan portfolio constitutes a very small percentage of the total loan portfolio, it does not factor heavily in the overall rating.

Consumer Lending

The consumer lending analysis shows a good distribution of loans among the census tracts within the three assessment areas. Of the 17 low-income census tracts, the bank made consumer loans in 5 of them, representing a 29 percent penetration rate. CBC also lent in 18 of the 29 moderate-income census tracts, for a 62 percent penetration rate, the best penetration rate out of all census tract income categories. Middle- and upper-income census tracts had 59 and 42 percent penetration rates, respectively. Overall, the bank made consumer loans in 72 of the assessment areas' 126 census tracts, representing a 57 percent penetration rate. Clearly CBC's consumer loans were well dispersed throughout the various segments of the bank's designated marketplace.

Lease Finance Receivables

Because all of the lease finance receivables were made in one middle-income census tract, an analysis of the geographic distribution of these loans would not be meaningful.

Borrower Profile

Another criterion used to measure the bank's CRA performance is its record of lending to borrowers of different incomes, and to businesses of different revenue sizes. In all small business loan originations, the gross annual revenues of the business are used as a measurement of the size of the business. In the home mortgage and consumer lending categories, the borrower's annual income is used and this figure is compared to the HUD updated median family income for the metropolitan statistical area in which the borrowers resides. [Note: HUD updates the median family income figures on an annual basis based on inflation.]

Small Business Lending

During the rating period, CBC made 22 small business loans inside its assessment areas, with approximately half going to businesses with gross annual revenues of less than or equal to \$1 million. Given the limited number of small business loans made, however, the distribution of these loans amongst small, medium and large businesses becomes less meaningful. Although, based on evidence that small business lending opportunities existed in the assessment areas, CBC did not necessarily meet the credit needs of local small businesses. Again, the bank's performance context and business strategy explains this lack of lending; it is expected that with additional commercial lending staff and as the bank continues to be profitable, it will be capable of serving this segment of the market to a far greater degree.

Home Mortgage Lending

Of the 43 residential mortgage loans that were made, CBC did an excellent job of lending to low-income borrowers, particularly when compared to demographics and to aggregate 1998 lending data. Although the bank's level of lending to moderate-income borrowers was not as noteworthy, the strong performance in the former category mitigates the lesser performance in the latter. It is important to note, however, that income information was not provided by 33 percent of all borrowers; therefore the percentages included in the table below could be slightly understated or overstated. Table 2 below details the distribution of lending among the four income classifications of borrowers.

<i>Table 2 – Distribution of HMDA Loans by Borrower Income</i>											
<i>Median Family Income Level</i>	<i>% Total House holds</i>	<i>Aggregate Lending Data (% 1998)</i>		<i>1997</i>		<i>1998</i>		<i>1999</i>		<i>Total</i>	
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low	11.2	1,822	6.6	4	22.2	4	23.5	2	25.0	10	23.3
Moderate	27.3	4,776	17.3	0	0.0	0	0.0	2	25.0	2	4.6
Middle	43.6	5,890	21.3	2	11.1	1	5.9	2	25.0	5	11.6
Upper	17.9	9,452	34.2	4	22.2	7	41.2	1	12.5	12	27.9
Total	100.0	27,673	100.0	18	100.0	17	100.0	8	100.0	43	100.0
Incomplete		5,732	20.6	8	44.5	5	29.4	1	12.5	14	32.6

Consumer lending

CBC's record of consumer lending to low- and moderate-income borrowers has been very good. In the time period evaluated, the bank made 289 consumer loans, with 46 percent made to low-income borrowers, and 27 percent made to moderate-income borrowers. Lending to middle- and upper-income borrowers represented 11 and 6 percent, respectively. Approximately 10 percent of the borrowers did not provide income information. Measured in dollars, the percentages remain favorable, with 41 percent to low-income borrowers, 25 percent to moderate-income, 12 percent to middle-income, and 10 percent to upper-income. The percentage of consumer lending to low-income borrowers increased every year, from 40 percent in 1997 to 48 percent in 1999. Lending to moderate-income borrowers showed a modest decline, from 29 percent in 1997 to 26 percent in 1999, however, this level is considered good. Dollar volumes in this category grew each year. Though consumer loans were well dispersed amongst low- and moderate-income borrowers, again, they comprise only 6 percent of the total dollar amount of originations during the evaluation period, and are therefore not weighted heavily in the overall rating.

Lease Financing Receivables

The leasing company with which CBC has a lending relationship has gross annual revenues approaching \$2 million. Again, as all of the bank's business in this area is with one company, an analysis of the distribution of incomes is not meaningful.

Response to Complaints

There were no consumer complaints regarding the bank's CRA performance. Accordingly, this performance factor was not considered in assigning the overall rating.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws or regulations were identified during this examination.